

ANNUAL REPORT
of the
AMERICAN TELEPHONE
AND TELEGRAPH COMPANY
FOR 1943

The Board of Directors of the American Telephone and Telegraph Company presents herewith the management's accounting of its stewardship for the year 1943 for the information of stockholders, employees, telephone users and the entire American people who have entrusted to private enterprise the responsibility for carrying on this essential national service.

WORKING at full war tempo, the American Telephone and Telegraph Company and its Associated Companies in the Bell System continued to face unprecedented demands for telephone communication throughout 1943. Use of long distance was well above even the record levels established in 1942, and the number of telephones in service likewise reached a new peak.

This increase in demand continued the steep upward course that has prevailed ever since the start of the national defense program in 1940. Since that time, the number of Bell System telephones in service has increased by more than four and one-half million, the daily number of conversations handled by the System has increased by more than twelve million, and the number of long distance conversations has increased two and one-half times. To speed the pace of America's greatest military and production effort, the nation has needed, and has obtained, telephone service far beyond any previous requirement.

At no time in the history of the country has there been so much evidence as now, after the second full year of total war, of the indispensable part which telephone service plays in the life of the nation. This war is a war of distance, of movement, of production, of tremendous numbers and of pressing time elements. All of this has meant telephone communication on a scale far beyond all previous conceptions for the armed services, for the producers of war materials and for those engaged in essential civilian activities. Telephone service also has an increased importance in

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the life of the individual and the family at a time when there has been an unprecedented migration of men and women for military service and for war production work. It makes a direct contribution to the effectiveness of the war effort of everyone.

It is a tribute to the efficient teamwork and devotion to duty of the men and women of the Bell System in the face of shortages of facilities, public emergencies and exacting requirements, that the service has continued to give such general satisfaction. Also, these splendid results could not have been achieved by the Bell System people alone without the fine co-operation of the 6,200 independently owned connecting telephone companies and their personnel operating more than 4,500,000 telephones, and of the large army of women operating the private branch exchange switchboards in Government buildings, military establishments and businesses and institutions of many kinds; and last but not least, by the understanding co-operation of the public, who have been told of the telephone's war problems through the most extensive advertising and informational program in Bell System history.

Over 53,000 Bell System employees are now in the armed forces—more than double the 25,000 who served in the first World War.

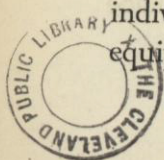
The Western Electric Company, Incorporated, manufacturing branch of the System, expanded its facilities still further during 1943. It is the largest producer of electronic and other war communication equipment in the United States and is now engaged almost exclusively in the manufacture of this equipment which is playing such a vital part in the war.

Bell Telephone Laboratories, Incorporated, the System's research organization, is the largest industrial laboratory in the world. As in the preceding year, substantially all its resources and the special talents of its scientists and engineers were devoted in 1943 to war research and development activities. When the need for secrecy no longer exists and the facts can all be told, the contributions of this organization to victory will be a source of pride to all concerned.

Bell System earnings on average total invested capital—long term debt and stockholders' equity—were 5.7 per cent as compared with 5.4 per cent in 1942.

Service

The number of Bell System telephones in service at December 31, 1943, was 21,246,600, an increase of 1,233,700 for the year. This compares with an increase of 1,171,800 telephones in 1942. By the end of the year, there were 650,000 applications for main telephones which could not be cared for immediately because of lack of facilities. In addition, there were large numbers of outstanding requests for other services such as residence extension stations, changes from party line to individual line and changes in type of telephones and private branch exchange equipment.



The number of long distance conversations handled by the Long Lines Department of the Company was 31 per cent above 1942, reaching the unprecedented total of nearly 150,000,000. This is 50,000,000 more conversations than would have been expected from normal peace-time growth based on experience of the past.

Immediately following Pearl Harbor, in December, 1941, the Long Lines was called upon to handle an emergency volume of traffic unheard of up to that time. The upsweep in the number of these calls during Pearl Harbor week brought the volume to 40 per cent above the corresponding week of the previous year. What was then unheard of is now surpassed every day, for the steady growth which has occurred since then has been so great that the volume of these calls currently handled not only equals the Pearl Harbor week but exceeds it by two-thirds.

In 1913, the year before World War I, total long distance conversations handled by the Long Lines Department were 7,000,000. After five years of the war period, in 1918, the volume had risen to 64 per cent above that figure. In comparison, Long Lines conversations in 1938, the year before World War II, were 54,000,000 and five years later, in 1943, had increased to 150,000,000, or 178 per cent above this very much higher base.

Employees throughout the Bell System—at the switchboards, on installation, construction and repair work and in the commercial and other offices—by doing their level best are succeeding in giving good service notwithstanding the present difficult conditions and thus they contribute in no small measure to the total war effort. There is a general appreciation among Bell System employees that, under the trying conditions of these times courtesy, always an integral part of good telephone service, has taken on even greater importance—courtesy in the finest sense embracing a genuine desire to serve, with unfailing cheerfulness, consideration and patience.

Bell System employees are fortunate in having the co-operation and sympathetic understanding of the public for without that co-operation and understanding their task would have been an almost impossible one. Criticisms are fewer than ever before; and in this and other ways the public has demonstrated its appreciation of the efforts of the telephone workers.

The technical quality of local telephone service, both manual and dial, continued to be good and in most respects fully comparable with pre-war service. In the controllable items of service, such as the promptness with which operators answer signals and their accuracy and attentiveness in establishing connections, results have been maintained at high levels. The physical condition of the plant has been kept close to its usual standards of excellence and the rate of plant troubles reported for the year was the lowest on record. New installations of service could not be completed as promptly as formerly, due to war-time shortages, but since first attention was given to installations where essential service was involved such installations were made promptly.

The maintenance of a high quality of toll and especially of long distance telephone service presented the most difficult problem, because of shortages of facilities. Excluding short haul toll calls, which still average less than one minute to complete, the average speed of service for the year 1943 was 5.1 minutes, compared with 3.1 minutes in 1942. There was considerable variation from this average in some parts of the country—in places where war activities were especially marked, the service was at times appreciably slower. The average speed of service in 1918, at the end of the first World War, was 17 minutes.

With the increased congestion of long distance circuits the proportion of toll and long distance calls completed while the calling party remained at the telephone dropped in 1943 to 82 per cent, compared with 87 per cent in 1942.

Teletypewriter exchange service was of more than ordinary importance during the past year, with the predominating usage of this service coming from the armed services and other Government agencies and from industries directly engaged in war production. Teletypewriter connections totaled 14,441,700 in 1943—31 per cent over 1942 and a record-breaking high. Despite heavier loads on the circuits, service was well maintained with speed of completion averaging 2.5 minutes in 1943, as compared with 1.9 minutes in 1942.

The system of priorities, established in 1942 through the co-operation of the Board of War Communications, to insure that toll and long distance telephone and teletypewriter calls requiring quick completion in the interest of war activities and national safety get through promptly even when lines are overcrowded, has met all expectations. The plan has been judiciously used for the purpose intended and the volume of priority calls has been kept well in bounds, thus insuring the completion of calls which qualify for priority within a few minutes even when a substantial amount of traffic is backed up.

The advertising program undertaken in 1942 at the request of the Board of War Communications to acquaint the public with the congestion on long distance lines has been continued and expanded. This program, which utilizes practically every type of advertising medium, includes requests that unnecessary long distance calls to war-busy centers be avoided, that long distance calls be limited to five minutes whenever circuits are busy, and that, in order to keep the lines clear for the men and women in the armed forces, the civilian population refrain, as far as possible, from making any unnecessary long distance calls between 7:00 P. M. and 10:00 P. M. The practice of asking customers during periods of circuit congestion, if they can, to limit their conversation to five minutes has reduced appreciably the length of conversation on these calls and has assisted in speeding up the service on these congested routes. In all of this, the Bell System is co-operating in the "Conserve Critical Resources for War" program sponsored by the War Production Board. The public has evidenced a fine understanding of the need for conserving the use of long distance telephone service.

Overseas Telephone Service

Overseas telephone service was extended during 1943 to the Union of Soviet Socialist Republics by means of a radio telephone circuit established between New York and Moscow. Service was also inaugurated between this country and Curacao in the Netherlands West Indies over a New York-Willemstad circuit. To meet further growth, additional facilities were provided to Brazil, Venezuela, Central America and Hawaii.

In addition to the important task of providing overseas message service to the public, the Company is furnishing a considerable part of its radio facilities to the armed forces and other branches of the Government for their use on special overseas projects of vital importance to the conduct of the war.

Since 1927, when the first overseas radio telephone service was established to England, telephone service has been extended to include over seventy countries so that to-day, except for the war, any Bell telephone can be connected with any one of 95 per cent of the telephones in the world.

Co-operation with the Armed Services

The large and changing demands of the Army and Navy for communication services, many of which are of a most urgent nature, led all of the Bell System telephone companies to set up special organizations devoting their time exclusively to the communications problems of the military and naval authorities and channeling the work involved into all departments of the companies. In addition to giving advice on communications problems, these groups co-ordinate the handling of the Army and Navy service requirements which has helped substantially to insure the prompt and efficient establishment of Bell System services needed by them.

Public telephone service for men and women in the armed services was greatly expanded. Despite the unusual difficulties, thousands of additional public telephones have now been provided in and near military and naval establishments with more than 400 special telephone centers staffed by operators especially trained to handle the calls of service men and women. In a number of instances, telephone buses or trailers housing booths and attendants have been used pending installation of permanent facilities. Because of the magnitude of the job, telephone managers have been assigned on full time duty at many of the camps. Particular attention has been given to the requirements for public telephone service in Army and Navy hospitals, including special arrangements for the convenience of bedridden and wheel chair patients. This service has contributed to the morale of these men.

At the request of the Army, the Bell System is now operating nearly 300 Army switchboards in military establishments, about 3,000 telephone company operators being assigned to this work.

In co-operation with the Army and Navy, a group of Bell System people has been assigned to work with the armed services in Washington to assist them in analyzing and planning their intercity communications services. Offices are maintained in both the Pentagon and Navy Buildings, permitting close daily contact with Signal Corps and Navy communications people. This activity has helped to insure adequate provision and economical use of communication facilities for the armed forces.

The Bell Telephone Companies and the Bell Telephone Laboratories continued to provide school facilities and instructors for specialized training in communication for military personnel. During the year, some 4,000 men from the Army, Navy, Marine Corps and the Coast Guard received instruction in specific courses designed to meet the urgent need for skilled communication men. This makes a total of 8,000 service men who have attended these courses since 1941.

The comprehensive communication system for use against enemy air attack, developed in co-operation with the Army authorities and installed in 1941, to a large extent became inactive in the latter part of 1943. The complete system is in place for immediate use in the event of emergency and most of the posts are operated each week for practice purposes. Similar portable systems have been developed by the Bell Telephone Laboratories for use by the Army in the field.

As called upon from time to time, Bell System engineers have assisted in important military communication projects for many parts of the world.

At the request of the Army, the Company has prepared complete field instructions for the engineering and construction of open wire telephone lines, designed particularly to meet military requirements; and adaptations of carrier and repeater equipment, widely used in the long distance plant of the Bell Telephone Companies were developed to meet the requirements of operation at Army bases in various parts of the world. This modified apparatus is designed in "packaged" form, wherein everything required for the operation of a system is included in a number of standardized packages. Engineering studies have been made for the Signal Corps of the adaptation to Army use of telephone line construction machinery. This included the study of application of earth-boring machines, the design of a special power wire reel and special studies of the use of telephone type trucks.

Bell Telephone Laboratories

As the war has continued, the part played by Bell Telephone Laboratories has continued to increase. This unit of the System has now more than 7,200 workers, which compares with 6,200 a year ago and 5,000 at the beginning of the war. Many of the additions to the highly trained technical staff of the Laboratories have come from the technical forces of operating units of the Bell System. The enlargement of the Laboratories by this method has had the benefit of bringing in mature and experienced men, and at the same time has minimized the need for recruiting from other sources technical men badly needed elsewhere in the war effort.

The Laboratories has engaged in over a thousand war development projects, of which more than half have been completed and many have found effective practical application in actual combat. These projects include all kinds of electrical communication, both wire and radio, used over land or sea and through air and water. But these projects are not limited to communications and many of them involve applications of electronics to other problems of warfare.

Applying electronics to war is an activity in which the Laboratories first engaged during the first World War. The basic tool of electronics, the amplifying vacuum tube, had already been applied to the first transcontinental telephone line. The possibilities of long distance radio telephony overseas had also been demonstrated. Among the Laboratories' developments for that war was the first equipment for telephoning between planes and between ground stations and planes. To-day's military problems are more varied and difficult, but the art of electronics has also undergone a tremendous expansion and advanced knowledge is available to meet present problems.

In meeting military needs, the Laboratories is especially competent because of its leadership in electronic research and its ability and long experience in carrying projects through all the successive stages of fundamental research, development of apparatus, and the production and test of models designed for quantity manufacture. For this reason, it has been entrusted by various Government departments and agencies with wide responsibilities for development work. That this trust has been well placed is amply proved by many confidential reports on the successful military use of its products and by letters of commendation from high authorities.

The following telegram has been received by the President of the Laboratories from General Henry H. Arnold, Commanding General, Army Air Forces:

"Directly as a result of the outstanding contribution made by your organization in the development of special electronic equipment and in the making of preproduction models thereof it has been possible for the Army Air Forces to take the offensive with telling effect against Japanese shipping in the South and Southwest Pacific areas at a much earlier date than would otherwise have been possible and under conditions which normally would have made such operations impossible.

"It is my great pleasure in behalf of the Army Air Forces to express our appreciation for this contribution and to congratulate you and your people on their achievement."

Plant and Facilities

Plant construction is closely controlled by war-time restrictions of the War Production Board. Materials necessary for the maintenance of plant are given a rating comparable with that of military requirements. Other construction is limited to the most necessary projects, and procedures for the approval of these projects are functioning smoothly. The effectiveness of these restrictions and of the voluntary steps taken by the telephone companies in conserving the use of critical materials is illus-

trated by the fact that at the end of the year the rate of use of materials in plant construction had been reduced from the high point in 1941 by 83 per cent for iron and steel, 91 per cent for nickel, 91 per cent for zinc, 93 per cent for copper, 95 per cent for tin, 98 per cent for aluminum and 100 per cent for crude rubber.

Investment in Bell System telephone plant amounted to \$5,387,790,000 at the end of 1943, having increased by \$91,132,000 during the year. Depreciation and amortization reserves amounted to \$1,717,373,000, or 31.9 per cent of the plant investment.

Total expenditures for new construction were \$154,000,000 in 1943, compared with \$345,000,000 in 1942 and \$420,000,000 in 1941. The 1943 expenditures included \$61,000,000 for the installation of telephones, private branch exchanges and associated equipment at customers' premises, \$35,000,000 for other exchange plant construction, and \$58,000,000 for the construction of additional toll and long distance circuits and associated switching arrangements.

No telephones, except a few for special purposes, were manufactured throughout the entire year. The Bell System was, however, able to increase by 1,233,700 the number of telephones in service by putting into service about 650,000 old-type sets which normally would not have been re-used but which had been accumulated for this emergency, and by the adoption of emergency practices to reduce the number of telephones in working stock during the process of distribution, installation, removal and repair.

The manufacture of new exchange central office equipment was practically suspended during the year. In many cases, it has been possible to increase somewhat the amount of exchange service by loading the central office equipment beyond the capacity for which it was designed. At the present time, the load on about 1,300 out of the 7,300 central offices has reached the maximum war-time limit and no additional telephone lines can be accommodated. Also, the number of cases in which telephones cannot be installed because of the lack of wire facilities is increasing.

Additions to toll and long distance facilities in 1943 represented only about one-third of the amount of plant which normally would be provided for the additional traffic experienced in 1943 over 1942. This is in spite of the fact that additional toll and long distance circuits were provided to the extent of 1,450,000 miles, or 9 per cent in the number of circuits. Of the added circuit mileage, 84 per cent was obtained by the installation of carrier systems which make it possible, where line wire facilities are available, to obtain large numbers of additional circuits with a relatively small use of critical materials.

A study has been made of the effect on telephone requirements of a possible increase some time in the future of emphasis on military activities on and directed from the Pacific Coast. Plans have been made for the provision of additional exchange and toll plant in this area and for circuits between the Pacific Coast and the rest of the country to take care of these prospective increased activities.

Automatic Long Distance Switching Systems

One of the outstanding changes that occurred in the telephone system in the period between the two World Wars was the growth of automatic or dial switching. Two-thirds of Bell System telephones are now equipped for dial operation and, as soon as circumstances permit, the further expansion of dial operation will be resumed.

A significant step in the development of automatic long distance switching where the subscriber places his call as usual with the operator and the operator dials directly the called number in the distant town or city, was taken in 1943 when a new toll office was cut into service in Philadelphia. The new office houses automatic apparatus which forms part of a switching system particularly suited to handling toll and long distance calls in metropolitan areas. This highly successful installation, which offers substantial improvements in quality and speed of service, has helped materially in meeting the war-time congestion of toll and long distance calls in the area around Philadelphia. Further installations of like character in other important cities and orderly expansion of this type of automatic switching throughout the nationwide long distance network will be important features of post-war construction.

Subscriber Dialing of Toll Calls

It has been possible, without interfering with the war effort, to make limited installations of certain new types of equipment where the experience to be gained will be useful in further development after the war. One such development, known as "automatic ticketing", will ultimately enable subscribers in metropolitan areas to dial directly a substantial part of their calls to nearby points which they now have to place through an operator. A form of such equipment has been put into commercial use in a suburban office in the Los Angeles metropolitan area. Its distinctive feature is that the equipment automatically prepares for each call a printed ticket showing all the information needed for charging the call to the calling subscriber. Equipment of this character appropriate to various conditions will make it possible to increase materially the number of toll calls on which subscribers will obtain the speed and convenience of dial operation.

Post-war Problems

To restore plant margins and to carry out plant betterments which have been suspended because of the war, it is estimated that the Bell System is faced with post-war expenditures for additional plant of more than one billion dollars, spread over a period of several years. In addition, the requirements for facilities for current growth may be substantial, depending upon general business conditions. The construction program for the first few years after the war may well prove to be the largest ever undertaken by the System.

To carry out this large construction program will require not only materials and manpower but also additional capital. In the past, the Bell System has always been able to raise the capital necessary for large extensions of its plant. If the System can continue to earn enough to maintain its credit, it should be possible to raise the required added capital economically, obtain the materials and give employment to thousands of men in the transition period from war to peace—when it will be so important to speed up the employment of manpower in peace-time activities.

The conversion to post-war conditions offers particularly difficult problems to the Western Electric Company since its present very large manufacturing program of special war products has required substantial conversion of its facilities from the manufacture of telephone equipment for the Bell System Companies. Resumption of manufacture of telephone apparatus on a large scale will require corresponding reconversion. The speed with which that Company will be able to begin full scale production for the telephone companies will depend, therefore, upon prompt termination of war contracts with equally prompt removal of war work in process from its plants, and the ability to reinstall manufacturing facilities for telephone products and to get quickly the materials needed for the new manufacture.

To the extent that it is practicable at this time, preparations are being made to meet these post-war problems and preliminary work on the more fundamental engineering plans of future plant design, re-design of telephone equipment for new manufacture where necessary, and general plans for relief as promptly as possible of the most severely congested areas are being made.

There are a number of new developments either held up by the war or coming out of war research which will be explored as soon as practicable. One, of course, includes the rapid extension of coaxial cable systems which has been deferred due to the war. These cables, which are capable of carrying several hundred telephone conversations simultaneously in two metal tubes a little larger than a lead pencil with a copper wire in each extending along its axis, are of particular interest in connection with post-war television developments. Others include the further development of automatic toll line switching systems; the application of some of the new developments in radio to two-way telephone communications; the possibilities of further extension of rural telephone service; further improvements in the quality and range of circuits for the transmission of broadcasts and television programs and other interesting and promising improvements in communication services.

Rates and Costs

As stated in the Annual Report for 1942, the charges for certain interstate services furnished mainly by the Long Lines Department of the American Telephone and Telegraph Company were substantially reduced early in 1943, with an annual sav-

ing of about \$35,000,000 to users of private line telephone and telegraph services, and to radio broadcasting stations, and in overtime rates to users of long distance message telephone service. Early in 1944, further reductions in Long Lines Department revenues and corresponding reductions in charges to the public, amounting to about \$10,000,000 annually, were agreed to. The Long Lines Department rates are under the exclusive jurisdiction of the Federal Communications Commission, which has jurisdiction over interstate rates only. The Commission has insisted that the earnings from such rates should be considered by themselves, regardless of overall System earnings, and has insisted that, when so considered, they produced a return greater than could be justified—this in spite of the fact that the return resulted from the extraordinary war-time volume of long distance calls and the temporary overloading of the long distance plant.

During 1943 and early in 1944, some of the Associated Bell System Companies reduced rates for certain of their long distance services. The annual saving to their customers amounted to \$11,000,000. No general changes affecting exchange rates were made.

In the period during and following the first World War, from 1914 through 1925, Bell System operating expenses per telephone, including taxes, increased about 61 per cent, and, as a result, substantial increases in telephone rates had to be made.

With current war-time controls, the rate of increase in expenses has so far been less than during the corresponding period of the last war, and for the present this has been in part offset by the overloading of the telephone plant with the result that increased costs associated with increased investment have not been as much as they would have been in peace-time for the same increase in business handled. Even with this temporary offset, which will disappear with the restoration of normal operations, System earnings as a whole on invested capital are currently less than would be considered necessary in peace-time, if the credit of the System is to be kept at a high level.

Earnings

In 1943, Bell System operating revenues were \$1,648,077,000, an increase of \$178,814,000, or 12.2 per cent over 1942. Operating expenses before taxes increased \$114,194,000, or 12.2 per cent. After taxes, operating income and other income totaled \$236,237,000, or \$14,096,000 more than in 1942. Interest charges increased \$382,000. The net income of the System applicable to American Telephone and Telegraph Company stock for 1943 was \$177,769,000, or \$9.50 per share, compared with \$8.79 in 1942.

Net income of the Company for 1943 (which includes the Company's interest in earnings of subsidiaries only to the extent that such earnings have been received as dividends) was \$9.00, compared with \$8.72 per share in 1942.

Taxes

Total taxes of the Bell System Companies, including the Western Electric Company and the Bell Telephone Laboratories, were \$449,314,000 in 1943, compared with \$398,732,000 in 1942. Of the total taxes, Federal taxes were \$302,876,000, an increase of \$44,261,000, or 17 per cent over 1942. The total tax bill amounted to \$23.29 per share of American Telephone and Telegraph Company stock, which is \$14.76 per share more than in 1939.

Certain taxes borne directly by telephone users are added to all telephone bills and collected by the telephone companies on behalf of the Federal Government. The amount so collected by Bell System Companies during the year 1943 amounted to \$170,000,000.

Bell System Financing

During the year, the American Telephone and Telegraph Company issued \$11,040,800 par value of its common stock on conversion of a like amount of its Fifteen Year 3% Convertible Debenture Bonds, the Company receiving \$4,416,320 premiums in connection therewith. The Bell Telephone Company of Pennsylvania sold on February 1, 1943, \$35,000,000 First and Refunding Mortgage 2¾% Bonds, Series E, the proceeds of which were used to redeem on January 1, 1944 at 100 per cent the Company's \$35,000,000 Twenty-Five Year First and Refunding Mortgage 5% Bonds, Series B. The Chesapeake and Potomac Telephone Company of Virginia paid at maturity a serial note of \$1,000,000 and certain of the principal telephone subsidiaries of the American Telephone and Telegraph Company paid off \$15,846,000 of their 4% Notes held by the Trustee of their respective Pension Funds. Outstanding debt obligations of the Bell System decreased \$27,887,000 during the year.

On November 1, 1943, the Western Electric Company entered into a "VT" credit agreement with nine banks for an extension of credit amounting to \$150,000,000 intended to provide funds to be used or to replenish, replace or free funds theretofore used in connection with war production contracts. This "VT" credit continues in effect until March 31, 1947, subject to modification or reduction under certain conditions. The Western Electric Company has not yet used any portion of the credit.

Cash and temporary cash investments of the System telephone companies amounted to \$346,959,000 at the end of the year. Included in these cash assets are the Company's temporary investments of \$157,274,000 in Government obligations, \$70,000,000 demand notes of the Western Electric Company and cash balance of \$14,093,000. Net current assets at December 31, 1943, were \$114,684,000.

At the end of the year, the total invested capital—long-term debt and stock equity—of the Bell System, was \$4,112,226,000, of which \$1,471,169,000 were debt obliga-

tions, or 35.8 per cent of the total, as compared with 36.4 per cent at the end of 1942.

Last of Dual Telephone Service

In March, 1943, the outstanding capital stock of Imperial Securities Company was acquired by the New Jersey Bell Telephone Company pursuant to authority granted by the Federal Communications Commission. Imperial Securities Company and its subsidiaries constitute the Keystone System which operates approximately 53,000 telephones in Philadelphia and its environs and in southern New Jersey. An application is pending before the Pennsylvania Public Utility Commission for the acquisition by the Bell Telephone Company of Pennsylvania of the properties of the Keystone System located in Pennsylvania and an application is pending before the Board of Public Utility Commissioners of New Jersey for the acquisition by the New Jersey Bell Telephone Company of the properties of the Keystone System located in New Jersey. It is estimated that the total cost of the acquisition of the property of the Keystone System, including the assumption of approximately \$11,000,000 of bonds, will be about \$15,000,000 and it is contemplated that, upon such acquisition, Imperial Securities Company and its subsidiaries will be dissolved. This will mean the end, except for minor instances, of two telephone systems serving in the same exchange service area in the United States.

Bell System Telegraph Business

An amendment to the Federal Communications Act adopted in March, 1943, authorized the Federal Communications Commission, if it found the transaction to be in the public interest, to approve the merger of domestic telegraph companies and also the acquisition by the merged company of the telegraph business of other carriers. Before that amendment was adopted, the Company had been asked by a Committee of Congress considering the legislation to make a statement of its position with respect to a sale of the telegraph business of the Company and its Associated Companies to the merged company if the merger should be authorized by Congress. The Company then stated it would give consideration to such a sale if it was determined that it was in the public interest. A merger of The Western Union Telegraph Company and Postal Telegraph, Inc., having been found in the public interest by the Federal Communications Commission, has been consummated and the sale of the Bell System's private line, morse and teletypewriter exchange telegraph business to the merged telegraph company has been under consideration. Any such sale of this Company's telegraph properties will first require approval by the stockholders and must be found to be in the public interest by the Federal Communications Commission. The Bell System's telegraph revenues amount to about two per cent of the System's gross revenues.

Stockholders

At the end of 1943, there were 651,711 stockholders of record of the American Telephone and Telegraph Company. This is 8,690 more than at the end of 1942. The average number of shares held per stockholder at the end of 1943 was 29. Geographically, the stock was widely held. Approximately 60,000 Bell System employees owned stock in the Company. No stockholder held as much as one-half of one per cent of the total stock. Of the total stockholders, 207,700 held from one to five shares each and 616,100 held less than 100 shares each. The 35,600 stockholders—including insurance companies and many other institutional holders—who owned 100 shares or more each were 5.5 per cent of the total number of stockholders and held 47.4 per cent of the total stock.

Western Electric Company

For the second successive year, sales of the Western Electric Company, including its subsidiaries, far exceeded those of any previous year, amounting to \$714,338,000—an increase of 24 per cent over 1942. Sales to the United States Government, \$596,112,000, represented 83 per cent of the total and compared with \$309,013,000 the previous year. Sales to the Bell telephone companies declined greatly and consisted mainly of materials for maintenance and repair, and essential items of carrier, switchboards and other equipment for the extension of long distance circuits.

The Western Electric Company's war business covered a great variety of equipments in the radar, radio and telephone fields and many other related products which the Company's manufacturing and technical facilities were especially qualified to produce.

To keep pace with the ever increasing demands of the Army, Navy and other agencies of the Government, the Company's manufacturing facilities were further extended during the year. Additional factory units were established in rented quarters, both in the vicinity of its main manufacturing plants and in outlying areas. War production has also been undertaken in many of the repair shops of the Company's distributing houses.

At the end of the year, the Western Electric Company was occupying over 3,000,000 square feet of floor space leased specifically for war purposes. A total of 89,000 employees were on the payrolls at the end of the year—an increase of 12,200 during the year.

The Army-Navy Production "E" Award previously conferred on the Company's manufacturing plants was renewed during the year and many other commendations were received from officers of the Army and the Navy as evidence of the Company's high achievements in the production of war material.

Earnings of the Western Electric Company, including its subsidiaries, were \$13,300,000, as compared with earnings of \$14,100,000 in 1942 before giving effect to certain prior years' taxes charged to 1942 results as stated in last year's report. The year's earnings resulted largely from its operations on Government contracts and are subject to renegotiation.

Employees

The employees in the Bell System, including the Western Electric Company and the Bell Telephone Laboratories, numbered 439,200 at the end of the year, an increase of 29,200 over the number at the end of 1942. In order to obtain this increase and to provide replacements for losses to the armed forces and other separations, it was necessary to employ 214,000 people, most of whom were women. This was accomplished, in general, through normal employment channels and the wholehearted co-operation of present employees. In addition, in many situations the United States Employment Service of the War Manpower Commission furnished valuable aid. Close co-operation existed between the System and the War Manpower Commission in working out practical applications of the extension of the normal work-week in labor shortage areas. Further, the Labor Stabilization Plans, now in operation throughout the country, have helped in reducing the amount of force turnover.

At the end of 1943, the number of men amounted to 141,500 while the women numbered 297,700, or 68 per cent of the force. The ratio of women to men is the highest in System experience.

While the force, as a whole, was adequate in numbers, the maintenance of the necessary skills was difficult because of the continued growth and the large force losses. Simplification of the induction and training programs was helpful in this connection. In a few critical areas where the needs of the service made such action desirable, experienced employees were brought in from other areas. At the end of the year, 25 per cent of the employees had less than one year's service.

Employees in the Armed Services

At the end of the year, there were 53,508 Bell System employees in the armed forces. Of the total, 50,433 were men and 3,075 were women. About three-fourths were in the Army and the remainder in the Navy, Marine Corps, and Coast Guard. In addition to the number still in the services, 2,257 had received discharges because of age or physical disability and had returned to their companies.

Two hundred and twenty of the System's employees have given their lives to their country. Reports have been received of a number who have been cited or decorated for unusual devotion to duty, or gallantry in action.

About 15,000 System employees were in the Signal Corps of the Army and many more in communications work with other branches of the services where their telephone experience is of direct value. Of those in the Signal Corps, nearly 5,000 skilled craftsmen, engineers and supervisors had volunteered for specific assignments as officers and technicians under the plan initiated by the Army more than two years before Pearl Harbor. This plan was concluded in September, 1943, and the Signal Corps' own training program is now providing the number of experienced officers and men likely to be required in the future. At that time, Major General Harry C. Ingles, Chief Signal Officer, wrote of the telephone men in the service: "The achievements of the men and the units in the service of our country will be forever inscribed in the annals of the Signal Corps."

The plans for the protection of the rights of employees in military service under the System's Benefit and Pension Plan and for the payment of supplementary compensation for a period following their entry into the service remain in force.

Payrolls

The total payroll of the Bell System for 1943, including the Western Electric Company and the Bell Telephone Laboratories, was \$967,410,000, an increase of \$119,026,000 over 1942.

Since January 1, 1943, wage increases totaling \$30,500,000 on an annual basis have been put into effect and others totaling \$11,000,000 are awaiting War Labor Board approval. In addition, there are a few cases pending before the War Labor Board in which agreement on wage increases could not be reached between the company and the union. Wage negotiations are under way in eight companies. Progression increases in wage rates normally made as employees' services and experience increase, not included in the above, amounted for the year 1943 to \$21,000,000. The schedules of pay of Bell System employees are the highest they have ever been.

Bargaining between the companies and the labor unions has continued throughout the year as existing agreements expired or were cancelled. Where agreements were reached, approval of the War Labor Board was requested and obtained with one exception. In this latter case, the union was disestablished by the National Labor Relations Board while the wage adjustment was awaiting War Labor Board approval and the application had to be withdrawn. Where agreements could not be reached with the union and the efforts of the United States Conciliation Service were unsuccessful, the cases were referred to the War Labor Board which ordered settlements.

Benefit and Pension Plan

The System's Plan for Employees' Pensions, Disability Benefits and Death Benefits, which has been in effect for thirty-one years, continues to be of great assistance

to the business in obtaining and retaining competent personnel and also of great value to the employees in meeting the problems of sickness, accident and death. In addition, the Plan provides a substantial degree of security for retired employees.

Payments under the Plan, except for pensions, are charged to expenses on a "pay-as-you-go basis." Service pensions, since 1927, have been provided for by accruing in advance on an actuarial basis with payments of the amounts so accrued into Pension Trust Funds which are devoted irrevocably to use for service pensions only. In December, 1942, following an extended investigation, the Federal Communications Commission issued an order forbidding charging a part (about one-third) of these accruals to the current operating expense accounts, although not questioning the desirability of the amount of payments being made to the Trust Funds.

A proceeding to set aside the Commission's order was brought by the New England Telephone and Telegraph Company in the United States District Court in Massachusetts. The case was dismissed by the District Court in December, 1943. As to the status of the payments in question for rate making purposes, the Court said that its decision left that question as wide open as before.

In another proceeding brought by The Pacific Telephone and Telegraph Company, the courts in the State of Washington reviewed a decision of the Department of Public Service of that State which, in a rate case, had disallowed as expenses pension accruals of the kind excluded from operating expense accounts under the Federal Communications Commission's order above referred to. The lower Court reversed the portion of the Department's order which had disallowed those payments as operating expenses, and on appeal its decision was affirmed by the Washington State Supreme Court.

The Pension Trust Funds of the Bell System Companies, including the Western Electric Company and the Bell Telephone Laboratories, amounted to \$444,386,000 at the end of 1943. Pension accruals added to the Trust Funds during the year amounted to approximately \$54,853,000, or 5.7 per cent of the payroll. Pension disbursements from Trust Funds during the year were \$10,871,000. At the end of the year, there were 8,269 men and 4,176 women, or a total of 12,445 on the service pension payrolls.

Other payments made under the Plan to about 75,000 employees in 1943 were:

Sickness Disability Benefits	\$11,633,000
Accident Disability Benefits	757,000
Death Benefits	2,504,000
Disability Pensions	552,000
Total	\$15,446,000

Savings and Insurance Plans

A new high record was reached in 1943 for employees' savings through payroll allotment plans. These plans are entirely voluntary in character and are maintained by the companies at no expense to the employees.

At the end of 1943, 395,000 employees of the Bell System, including the Western Electric Company and the Bell Telephone Laboratories, more than 90 per cent of the total number, were allotting 9 per cent of their pay for the purchase on an annual basis of more than \$119,000,000 maturity value of United States War Savings Bonds.

The continued use by employees of payroll allotment plans for the purchase of life insurance and for making deposits in savings institutions resulted in \$41,000,000 being set aside for these purposes during 1943.

Participation in Civilian War Activities

While meeting unparalleled demands upon the service, Bell System employees have continued to play an important role through their participation in the various civilian activities which are such a vital part of the war effort.

Through organized first-aid training and safety programs which have been in effect in the Bell System for many years, employees were particularly well equipped to meet the additional problems in these activities resulting from the war. Not only has the good safety record of the business been maintained, but, because of their training, employees from the onset of the war have been able to aid materially in promoting first-aid work in the various civic groups with which they are associated. Similarly, the well established Bell System health and nutrition training programs have made it possible for many employees to give substantial assistance to outside agencies in these activities which are so helpful under present war-time conditions in promoting the well-being of workers and their families.

In addition to these contributions of extra personal services, employees have continued to purchase large amounts of War Savings Bonds, as noted above, and they have contributed generously to the support of the American Red Cross, the National War Fund and various community relief organizations connected directly or indirectly with the war effort. Large numbers have been blood donors and have given much of their available time to services such as acting as nursing assistants in hospitals, canteen work, and other welfare and community activities associated with the war emergency. Many have been able, through their experience and training, to furnish valuable technical advisory and other services associated with civilian defense.

Vail Medal Awards

The Theodore N. Vail Memorial Fund, which was established in 1920, provides annual awards of medals and plaques in recognition of unusual acts which accord

with Bell System ideals of service to the public. Since the Fund was established, 14 gold, 102 silver and 1,064 bronze medals have been awarded, and bronze plaques have been presented to the companies where employees have been awarded gold and silver medals. Special plaques have been awarded in 26 cases where groups of employees have performed especially outstanding service during public disasters. The gold, silver and bronze medals awarded to individuals are accompanied by \$1,000, \$500 and \$100, in cash, respectively.

Four silver medals and 26 bronze medals, all with accompanying citations, were awarded in 1943. The silver medal awards are as follows:

JENNIE CROUSE, Operator, Alvin, Illinois; "for courage, initiative and effective use of telephone facilities in summoning and organizing aid and alleviating distress and anxiety in a time of public disaster."

EVELYN FUJIKO, Agent, JOSEPH FUJIKO, Operator, and LILA WOOD, Operator, Spring Valley, Wisconsin; "for conspicuous courage and devotion to duty under hazardous conditions and grave personal danger during a serious flood."

Two special plaques were awarded to employees in recognition of their courage and devotion to duty during a severe flood, as follows:

Telephone Operators at Hawley, Pennsylvania, an Agency of The Bell Telephone Company of Pennsylvania.

The Traffic and Plant Employees of The Bell Telephone Company of Pennsylvania, Honesdale, Pennsylvania.

Aid to Victory

Two years of war have tested the Bell System's character and its capacity to serve the nation. Good telephone service is vital to victory and events have demanded the utmost efforts to insure that every war telephone need be met. The results have contributed to the extraordinary accomplishments of American industry and the progress of our fighting forces all over the world. Ships, planes, tanks and guns have been produced in vast quantities, and men trained and equipped to win victories, with a speed which would hardly have been possible without swift and plentiful telephone communication.

The war achievement of America is based on the heritage of freedom that America is waging war to preserve. The things we are fighting for are the things that will enable us to win. Our system of freedom of private enterprise has outmatched the productive accomplishments of every other country in the world, and our telephone service meets the requirements of American industry, and heightens its pace, because the telephone industry itself has had the stimulus of freedom.

Imagination and initiative, thus encouraged, have created the incomparable communications plant of the Bell System and have brought about steady progress in the telephone art. Telephone men and women have learned to work skillfully together as a team; abilities of individuals have been recognized and supervisory and management positions have been filled from the ranks. This policy has built up the collective experience necessary to meet the emergency of war and to train the great numbers of younger people now serving in the Bell Telephone Army on the home front. The System has been able to expand its service because over the years it has been permitted, under regulation, to earn enough money to pay good wages and also to pay a reasonable return on the savings invested in the business, sufficient to attract the new capital needed to meet growing demands.

Above all, the complement of freedom is the sense of responsibility which telephone people call the spirit of service. In this war the spirit of service is the spirit of victory, and the men and women of the Bell System, in whom this spirit lives, may be relied on to do their utmost.

For the Board of Directors,

Walter S. Gifford

President.

FEBRUARY 15, 1944.

NOTE: The management will solicit proxies for the Annual Meeting of Stockholders to be held on April 19, 1944. It is expected that a proxy statement and a form of proxy will be sent to stockholders in connection with such solicitation on or about March 11, 1944.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

195 BROADWAY, NEW YORK

DIRECTORS

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WINTHROP W. ALDRICH

JAMES F. BELL

ISAIAH BOWMAN

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Treasurer

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Comptroller

PIERRE W. SAXTON

* On military leave.

BELL SYSTEM FINANCIAL STATEMENTS

The Bell System Financial Statements which follow on pages 24 to 28, inclusive, consolidate the accounts of American Telephone and Telegraph Company and the accounts of its principal telephone subsidiaries which are listed below. Indirectly controlled companies are indented under the immediately controlling company.

- New England Telephone and Telegraph Company
- New York Telephone Company
- New Jersey Bell Telephone Company
- The Bell Telephone Company of Pennsylvania
- The Diamond State Telephone Company
- The Chesapeake and Potomac Telephone Company
- The Chesapeake and Potomac Telephone Company of Baltimore City
- The Chesapeake and Potomac Telephone Company of Virginia
- The Chesapeake and Potomac Telephone Company of West Virginia
- Southern Bell Telephone and Telegraph Company
- The Ohio Bell Telephone Company
- Michigan Bell Telephone Company
- Indiana Bell Telephone Company
- Wisconsin Telephone Company
- Illinois Bell Telephone Company
- Northwestern Bell Telephone Company
- Southwestern Bell Telephone Company
- The Mountain States Telephone and Telegraph Company
- The Pacific Telephone and Telegraph Company
 - Bell Telephone Company of Nevada
 - Southern California Telephone Company

The subsidiaries so consolidated comprise, with two exceptions, all operating telephone companies having assets in excess of \$1,000,000, in which the American Company owns, directly or indirectly, securities representing more than 50% of the voting power. The exceptions are Keystone Telephone Company of Philadelphia and Eastern Telephone and Telegraph Company, subsidiaries of Imperial Securities Company. The outstanding capital stock of Imperial Securities Company was acquired by New Jersey Bell Telephone Company in March, 1943, pursuant to authority granted by the Federal Communications Commission. Keystone Telephone Company and Eastern Telephone and Telegraph Company furnish dual telephone service in portions of the territories of The Bell Telephone Company of Pennsylvania and New Jersey Bell Telephone Company, respectively. Subject to the necessary approvals of State regulatory bodies, The Bell Telephone Company of Pennsylvania and New Jersey Bell Telephone Company will purchase the physical properties of Keystone Telephone Company and Eastern Telephone and Telegraph Company in their respective territories, whereupon the latter companies will be dissolved.

The companies consolidated have for many years maintained their accounts in accordance with Uniform Systems of Accounts prescribed for telephone companies by Federal authorities. The System of Accounts now in use was prescribed by the Federal Communications Commission, effective January 1, 1937.

Telephone Plant is shown in the Consolidated Balance Sheet in the aggregate of the amounts at which it is carried in the accounts of the individual companies consolidated. For the companies in the consolidated group, all intercompany security holdings, intercompany receivables

and payables, and intercompany items of income and expense, except minor items which cannot readily be identified, are excluded. In the elimination of intercompany security holdings the difference between the aggregate cost of such securities to the companies owning them and the aggregate par value of such securities has been applied to reduce the combined surplus accounts of the companies consolidated.

The proportionate interest of the companies consolidated in majority-owned subsidiaries not consolidated (except Imperial Securities Company and its subsidiaries) is included in the Consolidated Balance Sheet in the aggregate of the equities applicable thereto as computed from the accounts of these subsidiaries and the proportionate interest in their earnings is included in "Other Income" in the Consolidated Income Statement.

Most of the telephone equipment, apparatus and materials used by the companies consolidated has been manufactured or procured for them by Western Electric Company, a subsidiary not consolidated, under contracts providing that the prices paid shall be as low as Western Electric Company's prices to its most favored customers for like materials and services under comparable conditions. These items have been entered in the accounts of the telephone companies at cost to them, and are included in the Consolidated Financial Statements at such cost. This cost includes the return realized by Western Electric Company on its investment devoted to this business.

In the course of rearranging operating territories or properties, there have been over the years numerous sales of plant between companies whose accounts are consolidated herein. Many of these sales, involving by far the greater part of the plant transferred, were accounted for on the books of the purchasing company, with the concurrence of the regulatory authorities having jurisdiction, by including therein the same amounts for telephone plant and associated depreciation reserves as were carried in the accounts of the selling company, thus involving no change in the consolidated accounts. Substantially all of the remainder of the sales (relatively small in amount as compared with total plant and for the most part involving plant since retired) were made on the basis of reproduction cost new less allowance for depreciation as determined by the companies, and the property was entered in the accounts of the purchasing company at cost to it. Certain of these transactions resulted in credits to surplus on the part of the selling company. The accounting followed is considered to have been in accordance with the then prescribed accounting regulations.

Among the latter transactions were certain sales of property by the American Telephone and Telegraph Company to the New York Telephone Company in the years 1925 to 1928 involving an aggregate consideration of approximately \$12,600,000. The New York Company charged its property accounts with the price which it paid for these properties and considers that such accounting was in accordance with the then existing System of Accounts prescribed by the Interstate Commerce Commission which had jurisdiction over its accounting at the time. However, the Federal Communications Commission and the Public Service Commission of the State of New York recently concluded an investigation of the accounting by the New York Company for these transactions, and in decisions handed down on December 14, 1943 held that the accounting had been improper and that the New York Company should have taken the properties on its books at their cost to the American Company and credited its depreciation reserve with the same amount as the American Company had in its reserve in respect of the properties. This would have necessitated a charge to surplus of approximately \$4,166,000 by the New York Company. The Commissions thereupon ordered that the surplus of the New York Company should now be reduced by such amount despite the fact that the greater portion of the property involved has been retired from the accounts. The New York Company intends to contest in the courts the validity of the Commissions' orders and has transferred approximately \$4,166,000 from Unappropriated Surplus to Surplus Reserved pending final determination of the matter.

BELL SYSTEM FINANCIAL STATEMENTS

(American Telephone and Telegraph Company and its Principal Telephone Subsidiaries)

Consolidated Balance Sheet

ASSETS

Plant and Other Investments	December 31 1943	December 31 1942
Telephone Plant (a).....	\$5,387,789,748	\$5,296,658,357
At December 31, 1943 this property was classified in the accounts of the companies as follows:		
Telephone Plant in Service.....	\$5,347,257,006	
Telephone Plant under Construction.....	10,848,699	
Property Held for Future Telephone Use.....	12,137,257	
Telephone Plant Acquisition Adjustment.....	17,546,786	
Miscellaneous Physical Property.....	9,109,010	11,175,294
Investments in Subsidiaries not consolidated (b).....	203,035,887	205,984,975
Equities in majority-owned Subsidiaries not consolidated in excess of investments therein.....	24,999,457	26,732,421
Other Investments (c).....	59,742,697	63,073,804
Principally in non-controlled telephone companies.		
Sinking Funds.....	575,000	575,000
TOTAL PLANT AND OTHER INVESTMENTS	\$5,685,251,799	\$5,604,199,851

Current Assets

Cash and Demand Deposits.....	\$ 65,221,753	\$ 53,737,349
Temporary Cash Investments.....	281,737,437	158,581,924
Includes in 1943, \$136,722,749 U. S. Treasury tax notes; \$75,013,688 other U. S. short-term obligations having a market value of \$75,068,000; and \$70,000,000 demand notes of Western Electric Co.		
Special Cash Deposits.....	14,939,486	6,653,756
Current Receivables (d).....	181,118,523	177,275,930
Amounts due for service (less reserves amounting to \$2,362,275 at December 31, 1943), working advances, interest and dividends receivable, etc.		
Material and Supplies.....	48,183,178	58,449,505
Principally for construction and maintenance purposes.		
TOTAL CURRENT ASSETS	\$ 591,200,377	\$ 454,698,464

Deferred Debits

Post-War Refunds of Excess Profits Taxes.....	\$ 6,148,046	\$ 4,312,688
Prepayments of Rents, Taxes, Directory Expenses, etc.	15,005,529	13,679,087
Unamortized Debt Discount and Expense.....	8,669,133	8,685,562
(After deduction of unamortized premium.)		
Other Deferred Debits.....	6,981,834	7,122,185
TOTAL DEFERRED DEBITS	\$ 36,804,542	\$ 33,799,522
TOTAL ASSETS	\$6,313,256,718	\$6,092,697,837

For notes, see page 28.

BELL SYSTEM FINANCIAL STATEMENTS
(American Telephone and Telegraph Company and its Principal Telephone Subsidiaries)

Consolidated Balance Sheet—Continued

LIABILITIES

	December 31 1943	December 31 1942
Capital Stock (see page 29)		
American Telephone and Telegraph Company:		
Common Stock	\$1,879,720,200	\$1,868,679,400
Premiums on Capital Stock	274,401,428	269,975,028
Amount received in excess of par value.		
Subsidiaries Consolidated—stocks held by public:		
Common Stock	88,588,000	88,588,000
Preferred Stock	17,904,300	17,904,300
TOTAL CAPITAL STOCK	<u>\$2,260,613,928</u>	<u>\$2,245,146,728</u>
Funded Debt (see page 29)		
American Telephone and Telegraph Company	\$ 787,544,100	\$ 798,584,900
Subsidiaries Consolidated	617,568,000	618,568,000
TOTAL FUNDED DEBT	<u>\$1,405,112,100</u>	<u>\$1,417,152,900</u>
Notes Sold to Trustee of Pension Funds (e)		
Subsidiaries Consolidated	<u>\$ 66,056,994</u>	<u>\$ 81,902,938</u>
Current and Accrued Liabilities		
Accounts payable (d)	\$ 78,681,986	\$ 61,728,671
Advance billing for service and customers' deposits	31,982,214	29,874,131
Dividends payable	42,740,930	42,539,049
Other current liabilities	19,970,681	11,335,536
Taxes accrued	292,253,877	250,969,925
Interest accrued	10,886,579	12,058,108
TOTAL CURRENT AND ACCRUED LIABILITIES	<u>\$ 476,516,267</u>	<u>\$ 408,505,420</u>
Deferred Credits	\$ 6,151,497	\$ 4,656,990
Depreciation and Amortization Reserves	\$1,717,372,903	\$1,560,216,257
Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.		
Contributions of Telephone Plant	\$ 990,171	\$ 689,977
Surplus applicable to Stocks of Subsidiaries consolidated held by public (Includes \$163,133 Surplus Reserved)	<u>\$ 4,313,405</u>	<u>\$ 3,893,070</u>
Surplus applicable to Stock of A. T. & T. Co.		
Surplus Reserved	\$ 69,458,921	\$ 65,501,846
Includes reservation by American Tel. and Tel. Co. of \$60,817,757 against general contingencies.		
Unappropriated Surplus (see page 27)	306,670,532	305,031,711
TOTAL RESERVED AND UNAPPROPRIATED SURPLUS	<u>\$ 376,129,453</u>	<u>\$ 370,533,557</u>
TOTAL LIABILITIES	<u><u>\$6,313,256,718</u></u>	<u><u>\$6,092,697,837</u></u>

P. W. SAXTON, Comptroller.

BELL SYSTEM FINANCIAL STATEMENTS

(American Telephone and Telegraph Company and its Principal Telephone Subsidiaries)

Consolidated Income Statement

Operating Revenues	Year 1943	Year 1942
Local Service Revenues..... Revenues from local exchange service.	\$ 951,566,200	\$ 895,971,345
Toll Service Revenues..... Revenues from long distance and local toll service.	653,840,208	534,852,910
Miscellaneous Revenues Revenues derived from directory advertising, rents and miscellaneous sources.	46,241,957	42,899,237
Less: Uncollectible Operating Revenues..... Provision for revenues which may be uncollectible.	3,571,305	4,460,276
TOTAL OPERATING REVENUES.....	<u>\$1,648,077,060</u>	<u>\$1,469,263,216</u>
Operating Expenses		
Current Maintenance Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.	\$ 274,302,767	\$ 269,346,654
Depreciation and Amortization Expense..... Provision to meet loss of investment when depreciable property is retired from service, based on rates designed to spread this loss of investment uniformly over the service life of the property. Such provision represented approximately 4% of average investment in depreciable plant in service.	196,923,763	186,515,933
Traffic Expenses Costs incurred in the handling of messages, principally operators' wages.	301,589,568	236,935,531
Commercial Expenses Costs incurred in business relations with customers; pay station commissions; also the cost of directories, advertising, etc.	116,921,993	104,591,305
Operating Rents Rents for the use of buildings, poles, conduits and other facilities.	14,581,633	14,221,243
General and Miscellaneous Expenses:		
General Administration	15,224,196	15,392,485
Accounting and Treasury Departments.....	56,530,751	49,483,123
Development and Research (f).....	5,249,679	5,957,232
Provision for Employees' Service Pensions (g).....	28,725,391	23,072,329
Employees' Sickness, Accident, Death and Other Benefits.....	18,269,907	15,129,304
Other General Expenses.....	24,863,224	20,950,462
Less: Expenses Charged Construction.....	6,296,424	8,902,821
TOTAL OPERATING EXPENSES.....	<u>\$1,046,886,448</u>	<u>\$ 932,692,780</u>
NET OPERATING REVENUES (carried forward).....	<u>\$ 601,190,612</u>	<u>\$ 536,570,436</u>

For notes, see page 28.

BELL SYSTEM FINANCIAL STATEMENTS

(American Telephone and Telegraph Company and its Principal Telephone Subsidiaries)

Consolidated Income Statement—Continued

	Year 1943	Year 1942
NET OPERATING REVENUES (brought forward).....	\$ 601,190,612	\$ 536,570,436
Operating Taxes		
Federal Income Taxes.....	\$ 103,387,736	\$ 101,227,794
Federal Excess Profits Taxes (h).....	133,452,222	89,343,512
Other Taxes—principally State, local and Social Security.....	136,095,959	129,981,748
TOTAL OPERATING TAXES.....	\$ 372,935,917	\$ 320,553,054
NET OPERATING INCOME.....	\$ 228,254,695	\$ 216,017,382
Other Income (i)		
Dividends from subsidiaries not consolidated.....	\$ 15,664,137	\$ 7,852,499
Proportionate interest in earnings (after dividends) of majority-owned subsidiaries not consolidated.....	1689,468	1,569,933
Dividends from other companies.....	3,552,653	3,694,703
Miscellaneous income.....	4,043,570	6,071,607
Less: Miscellaneous deductions from income (g).....	14,589,068	13,065,359
INCOME AVAILABLE FOR FIXED CHARGES.....	\$ 236,236,519	\$ 222,140,765
Interest Deductions.....	\$ 51,070,022	\$ 50,687,976
Amortization of Debt Discount and Expense and other Fixed Charges.....	581,907	581,988
NET INCOME.....	\$ 184,584,590	(j) \$ 170,870,801
Applicable to Stocks of Subsidiaries consolidated held by public		
Preferred Stock.....	\$ 1,074,258	\$ 1,074,258
Common Stock.....	5,741,323	5,476,797
Applicable to A. T. & T. Co. Stock.....	\$ 177,769,009	\$ 164,319,746
Consolidated Earnings per share of A. T. & T. Co. Stock.....	\$9.50	\$8.79

† Italic denotes deficit.

Analysis of Consolidated Unappropriated Surplus Applicable to American Telephone and Telegraph Company Stock—Year 1943

BALANCE UNAPPROPRIATED SURPLUS—December 31, 1942.....	\$ 305,031,711
Net Income applicable to American Tel. and Tel. Co. Stock.....	\$ 177,769,009
Miscellaneous Additions.....	815,093
TOTAL ADDITIONS.....	\$ 178,584,102
Dividends on American Tel. and Tel. Co. Stock.....	\$ 168,478,336
Transfers to Surplus Reserved—net.....	3,957,075
Losses on sale of property.....	1,244,363
Abandoned projects and Telephone Plant Acquisition Adjustment—written off.....	1,698,531
Adjustments arising from charges (net) made directly to surplus by subsidiaries not consolidated.....	1,044,594
Miscellaneous Deductions.....	522,382
TOTAL DEDUCTIONS.....	\$ 176,945,281
NET INCREASE.....	\$ 1,638,821
BALANCE UNAPPROPRIATED SURPLUS—December 31, 1943.....	\$ 306,670,532

P. W. SAXTON, Comptroller.

NOTES TO BELL SYSTEM FINANCIAL STATEMENTS

(a) Comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, vehicles, furniture, etc. The Uniform System of Accounts for Telephone Companies prescribed by the Federal Communications Commission requires, with certain exceptions, that the accounts, "Telephone Plant in Service," "Telephone Plant under Construction" and "Property Held for Future Telephone Use" show the original cost of property at the time of its first dedication to the public use, whether by the accounting company or by a predecessor owner. The total shown for Telephone Plant, which includes the three accounts above mentioned and the amount classified as "Telephone Plant Acquisition Adjustment," represents substantially the cost of the plant to the individual companies with certain exceptions not considered to have resulted in any material deviation from cost. Expenditures for patents have been charged off as incurred and thus are not included in the asset accounts.

(b) These investments are, with minor exceptions, stated at cost. On December 31, 1943, securities included herein at \$28,338,000 were pledged under certain bond indentures.

(c) Stated at cost, except for items carried at depreciated or nominal values. Securities included herein at \$1,162,488 on December 31, 1943 were pledged under certain bond indentures.

(d) At December 31, 1943, Current Receivables and Accounts Payable included respectively \$88,051 and \$12,030,835, representing accounts with subsidiaries not consolidated.

(e) 4% demand notes held by Trustee as investments of pension funds not presently required to meet pension payments. Under present arrangements with the Trustee, the companies expect to retire approximately \$7,300,000 of these notes during 1944.

(f) Cost of development and research work carried on in behalf of the American Telephone and Telegraph Company by Bell Telephone Laboratories.

(g) The total provision for employees' service pensions amounted to \$38,725,374 for 1943 and \$33,616,063 for 1942, of which amounts \$9,999,983 for 1943 and \$10,543,734 for 1942 were charged to Miscellaneous Deductions from Income in accordance with accounting requirements of the Federal Communications Commission. The companies consider that these latter amounts were, in fact, operating expenses and should have been accounted for as such.

(h) After deduction of Excess Profits Tax credits of \$14,822,168 for 1943 and \$9,943,584 for 1942. The companies used \$12,986,810 of their 1943 credits and \$5,630,896 of their 1942 credits through debt retirement.

(i) Dividends received from the Western Electric Company in 1943 amounted to \$11,935,342 and the proportionate interest in that company's earnings for the year, after dividends, was \$1,295,889. About 83% of Western Electric's sales resulted from contracts with the U. S. Government and are subject to price renegotiation. The company believes that its earnings under these contracts will not be found to be "excessive" and has made no provision for possible refunds. However, should 1943 prices be renegotiated to allow only that percentage of profit on sales to the Government which was allowed in the renegotiation of 1942 prices, the amount of the refund which would be involved after taxes would not be material in relation to consolidated net income.

(j) Before reservations in 1942 of \$4,312,786, the estimated amount of the unused Excess Profits Tax credits, such reservations being carried in Surplus Reserved. The amount of these reservations applicable to A. T. & T. Co. Stock was \$4,149,653.

BELL SYSTEM

Stock and Funded Debt December 31, 1943

Capital Stock (a)	Amount	Increase(b) During Year
American Telephone and Telegraph Company:		
Par Value	\$1,879,720,200	\$ 11,040,800
Premiums	274,401,428	4,426,400
New England Telephone and Telegraph Company	48,355,900	
Illinois Bell Telephone Company	1,126,100	
Mountain States Telephone and Telegraph Company	12,862,200	
Pacific Telephone and Telegraph Company:		
Common	26,230,500	
Preferred	17,904,300	
Other Principal Telephone Subsidiaries	13,300	
TOTAL CAPITAL STOCK	\$2,260,613,928	\$ 15,467,200
Funded Debt		
American Telephone and Telegraph Company:		
Fifteen Year Convertible Debenture 3s, 1956	\$ 222,544,100	\$ 11,040,800
Twenty-Five Year Debenture 3½s, 1961	175,000,000	
Thirty Year Debenture 3½s, 1966	160,000,000	
Thirty Year Debenture 2¾s, 1970	140,000,000	
Thirty-Five Year Debenture 2¾s, 1976	90,000,000	
New England Telephone and Telegraph Company:		
First Mortgage 5s, 1952, Series A	35,000,000	
First Mortgage 4½s, 1961, Series B	40,000,000	
First Mortgage 3½s, 1968, Series C	20,000,000	
New York Telephone Company:		
Refunding Mortgage 3½s, 1967, Series B	25,000,000	
Refunding Mortgage 3s, 1964, Series C	75,000,000	
Bell Telephone Company of Pennsylvania:		
First and Refunding Mortgage 5s, 1948, Series B		35,000,000
First and Refunding Mortgage 5s, 1960, Series C	50,000,000	
First and Refunding Mortgage 2¾s, 1976, Series D	20,000,000	
First and Refunding Mortgage 2¾s, 1973, Series E	35,000,000	35,000,000
Diamond State Telephone Company:		
Thirty Year Debenture 3s, 1968	3,000,000	
Chesapeake and Potomac Telephone Company of Virginia:		
Serial Note 2%, 1943		1,000,000
Southern Bell Telephone and Telegraph Company:		
Twenty-Five Year Debenture 3½s, 1962	45,000,000	
Thirty Year Debenture 2¾s, 1972	35,000,000	
Forty Year Debenture 3s, 1979	25,000,000	
Illinois Bell Telephone Company:		
First Mortgage 2¾s, 1981, Series A	50,000,000	
Southwestern Bell Telephone Company:		
First and Refunding Mortgage 3½s, 1964, Series B	45,000,000	
First and Refunding Mortgage 3s, 1968, Series C	30,000,000	
Mountain States Telephone and Telegraph Company:		
Thirty Year Debenture 3½s, 1968	30,000,000	
Pacific Telephone and Telegraph Company:		
Refunding Mortgage 3½s, 1966, Series B	29,652,000	
Refunding Mortgage 3½s, 1966, Series C	24,916,000	
TOTAL FUNDED DEBT	\$1,405,112,100	\$ 12,040,800

(a) Common stock unless otherwise indicated.

(b) Decreases shown in italics.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet

ASSETS

Plant and Other Investments	December 31 1943	December 31 1942
Telephone Plant (a).....	\$ 551,970,294	\$ 532,297,833
At December 31, 1943 this property was classified in the accounts as follows:		
Telephone Plant in Service.....	\$ 544,259,460	
Telephone Plant under Construction.....	5,831,915	
Property Held for Future Telephone Use.....	556,365	
Telephone Plant Acquisition Adjustment.....	1,322,554	
Investments in Subsidiaries (b).....	2,623,836,404	2,684,999,338
Stocks.....	\$2,564,826,634	
Notes and Advances.....	59,009,770	
Other Investments (b).....	46,858,232	49,536,689
Stocks.....	\$ 42,356,036	
Notes.....	4,456,528	
Miscellaneous Physical Property.....	45,668	
TOTAL PLANT AND OTHER INVESTMENTS.....	<u>\$3,222,664,930</u>	<u>\$3,266,833,860</u>
Current Assets		
Cash and Demand Deposits.....	\$ 14,093,056	\$ 18,703,481
Temporary Cash Investments.....	227,273,688	145,084,396
Comprises at December 31, 1943 \$82,260,000 U. S. Treasury tax notes; \$75,013,688 other U. S. short-term obligations having a market value of \$75,068,000; and \$70,000,000 demand notes of Western Electric Co.		
Special Cash Deposits.....	1,576,922	1,444,979
Current Receivables.....	19,328,807	37,311,155
Amounts due for service (less reserve amounting to \$50,230 at December 31, 1943), working advances, interest and dividends receivable, etc. (includes in 1943, \$12,445,842 receivable from subsidiaries.)		
Material and Supplies.....	7,583,722	5,493,343
Primarily for construction and maintenance purposes.		
TOTAL CURRENT ASSETS.....	<u>\$ 269,856,195</u>	<u>\$ 208,037,354</u>
Deferred Debits		
Post-War Refund of Excess Profits Tax.....	\$ 1,849,346	\$ 1,945,000
Unamortized Debt Discount and Expense.....	2,390,740	2,461,701
(After deduction of unamortized premium.)		
Other Deferred Debits.....	1,816,056	2,143,212
TOTAL DEFERRED DEBITS.....	<u>\$ 6,056,142</u>	<u>\$ 6,549,913</u>
TOTAL ASSETS.....	<u>\$3,498,577,267</u>	<u>\$3,481,421,127</u>

(a) For note (a) see page 28.

(b) For detailed list of investments in subsidiaries and other companies see page 33. Securities are carried at cost.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet—Continued

LIABILITIES

	December 31 1943	December 31 1942
Capital Stock		
Common Stock—par value (\$100 per share).....	\$1,879,720,200	\$1,868,679,400
Authorized, 25,000,000 shares; outstanding at December 31, 1943, 18,797,202 shares (c).		
Premiums on Capital Stock.....	274,401,428	269,975,028
Amount received in excess of par value.		
TOTAL CAPITAL STOCK	<u>\$2,154,121,628</u>	<u>\$2,138,654,428</u>
Funded Debt (see page 29)	<u>\$ 787,544,100</u>	<u>\$ 798,584,900</u>
Current and Accrued Liabilities		
Dividend Payable.....	\$ 42,279,433	\$ 42,045,287
Accounts Payable.....	8,680,320	7,060,297
Includes in 1943, \$2,831,899 payable to subsidiaries.		
Taxes Accrued.....	57,464,296	65,594,745
Interest Accrued.....	5,024,395	5,147,640
TOTAL CURRENT AND ACCRUED LIABILITIES	<u>\$ 113,448,444</u>	<u>\$ 119,847,969</u>
Deferred Credits	<u>\$ 3,533,587</u>	<u>\$ 1,458,967</u>
Depreciation and Amortization Reserves	<u>\$ 186,553,570</u>	<u>\$ 169,156,738</u>
Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.		
Surplus		
Surplus Reserved.....	\$ 62,762,757	\$ 62,762,757
Includes \$60,817,757 reserved against general contingencies.		
Unappropriated Surplus.....	190,613,181	190,955,368
TOTAL RESERVED AND UNAPPROPRIATED SURPLUS	<u>\$ 253,375,938</u>	<u>\$ 253,718,125</u>
Analysis of change during 1943:		
Net Income (see page 32).....	\$168,530,764	
Miscellaneous additions.....	56,495	
Total additions	<u>\$168,587,259</u>	
Dividends declared.....	\$168,478,336	
Miscellaneous deductions.....	451,110	
Total deductions	<u>\$168,929,446</u>	
Net decrease	<u>\$ 342,187</u>	
TOTAL LIABILITIES	<u>\$3,498,577,267</u>	<u>\$3,481,421,127</u>

P. W. SAXTON, Comptroller.

(c) Of the authorized and unissued capital stock, 2,225,441 shares are reserved for issuance upon conversion of the \$222,544,100 of Fifteen Year 3% Convertible Debenture Bonds, Due September 1, 1956 (convertible on or before December 31, 1954 unless previously called for redemption), at \$140 per share, the conversion price being subject to adjustment as provided in the Indenture.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Income Statement

	Year 1943	Year 1942
Operating Revenues		
Toll Service Revenues	\$180,882,402	\$174,723,847
<i>Message tolls and private line service revenues.</i>		
License Contract Revenues	21,494,234	18,991,700
<i>Received for services furnished telephone companies.</i>		
Miscellaneous Revenues	8,091,625	6,644,643
Less: Uncollectible Operating Revenues	892,500	919,000
TOTAL OPERATING REVENUES	\$209,575,761	\$199,441,190
Operating Expenses (a)		
Current Maintenance	\$ 27,006,486	\$ 25,649,289
Depreciation Expense	21,649,923	19,937,509
Traffic Expenses	27,213,262	16,335,664
Commercial Expenses	8,191,496	3,127,409
Operating Rents	10,991,275	14,111,264
General Administration	6,651,390	6,409,060
Accounting and Treasury Expenses	4,482,362	4,223,424
Development and Research (b)	5,249,679	5,957,232
Provision for Employees' Service Pensions (c)	2,061,111	1,593,241
Employees' Sickness, Accident, Death and Other Benefits	1,233,272	1,094,303
Other General Expenses	4,465,492	2,666,027
Less: Expenses Charged Construction	403,884	618,990
TOTAL OPERATING EXPENSES	\$118,791,864	\$100,485,432
NET OPERATING REVENUES	\$ 90,783,897	\$ 98,955,758
Operating Taxes		
Federal Income Taxes	\$ 18,585,000	\$ 18,776,000
Federal Excess Profits Taxes (d)	33,195,000	40,068,000
Other Taxes—principally State, local and Social Security	9,905,178	8,973,867
TOTAL OPERATING TAXES	\$ 61,685,178	\$ 67,817,867
NET OPERATING INCOME	\$ 29,098,719	\$ 31,137,891
Dividend Income (e)	160,390,342	149,049,318
Interest Income (f)	5,166,469	6,858,372
Miscellaneous Income	677,955	1,501,629
Less: Miscellaneous Deductions from Income (g)	2,555,829	964,461
TOTAL INCOME	\$192,777,656	\$187,582,749
Interest Deductions	24,126,101	24,441,550
Amortization of Debt Discount and Expense—net	120,791	107,305
NET INCOME	\$168,530,764	(h) \$163,033,894
Earnings per share	\$9.00	\$8.72

P. W. SAXTON, Comptroller.

(a) Incurred principally in connection with the Company's long distance communication services and in the performance of License Contract services furnished telephone companies.

(b) Cost of development and research work carried on in behalf of the Company by Bell Telephone Laboratories.

(c) The total provision for employees' service pensions amounted to \$2,640,640 for 1943 and \$2,178,157 for 1942, of which amounts \$579,529 for 1943 and \$584,916 for 1942 were charged to Miscellaneous Deductions from Income in accordance with accounting requirements of the Federal Communications Commission. The Company considers that these latter amounts were, in fact, current operating expenses and should have been accounted for as such.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Income Statement—Continued

- (d) After deduction of Excess Profits Tax credits of \$3,688,000 for 1943 and \$4,452,000 for 1942. The Company used all of its 1943 credit and \$2,507,000 of its 1942 credit through retirement of debt.
- (e) Includes dividends from subsidiaries in the amount of \$157,626,169 for 1943 and \$146,121,148 for 1942.
- (f) Includes interest from subsidiaries in the amount of \$3,377,425 for 1943 and \$5,468,132 for 1942.
- (g) Includes in 1943 a provision of \$1,500,000 for an employment stabilization reserve for the Long Lines Department of the Company. This provision is contingent upon the acceptance and approval by the Federal Communications Commission of a proposal made to it by the Company under which such a reserve would be established through charges to Current Maintenance Expense. Such approval had not been received prior to closing the 1943 accounts and this provision was made through Miscellaneous Deductions from Income, the amount thereof being included in the balance sheet as a deferred credit.
- (h) Before reservation of \$1,945,000, the estimated amount of the unused Excess Profits Tax credit, such reservation being carried in Surplus Reserved.

Investments in Subsidiaries and Other Companies—December 31, 1943

Subsidiary Companies	CAPITAL STOCKS (a)			NOTES AND ADVANCES
	Par Value of Holdings	% of Total Outstanding	Book Value (Cost)	Face Value
New England Tel. & Tel. Co.	\$107,214,200	68.92	\$ 112,165,721	
New York Tel. Co.	421,300,000	100.00	444,280,335	
New Jersey Bell Tel. Co.	140,000,000	100.00	153,667,184	\$ 900,000
Bell Tel. Co. of Pennsylvania	130,000,000	100.00	136,316,050	
Diamond State Tel. Co.	7,000,000	100.00	7,700,000	
Chesapeake & Potomac Tel. Co.	50,000,000	100.00	51,000,000	5,300,000
Chesapeake & Potomac Tel. Co. of Balt. City	50,000,000	100.00	51,467,862	6,550,000
Chesapeake & Potomac Tel. Co. of Va.	45,000,000	100.00	45,000,000	7,450,000
Chesapeake & Potomac Tel. Co. of W. Va.	19,000,000	100.00	19,000,000	3,750,000
Southern Bell Tel. & Tel. Co.	175,000,000	100.00	176,817,298	
Ohio Bell Tel. Co.	159,999,700	99.99	160,041,998	
Michigan Bell Tel. Co.	159,989,000	99.99	160,401,232	
Indiana Bell Tel. Co.	40,999,100	99.99	41,585,586	1,814,770
Wisconsin Tel. Co.	47,200,000	100.00	50,423,835	
Illinois Bell Tel. Co.	161,372,900	99.31	166,853,699	2,000,000
Northwestern Bell Tel. Co.	125,000,000	100.00	126,039,490	
Southwestern Bell Tel. Co.	182,998,900	99.99	186,251,978	
Mountain States Tel. & Tel. Co.	35,187,500	73.23	36,592,463	10,800,000
Pacific Tel. & Tel. Co.—Common	219,894,500	89.34	215,552,684	18,700,000
Pacific Tel. & Tel. Co.—Preferred	64,095,700	78.17	55,999,180	
Bell Telephone Laboratories, Inc.	5,750,000	(b) 50.00	5,750,000	
Western Electric Co., Inc. (no par value)	(c) 5,967,671	99.46	144,330,039	(d)
195 Broadway Corporation	17,500,000	100.00	17,515,000	1,745,000
Eastern Tel. & Tel. Co. (Canada)	75,000	100.00	75,000	
TOTAL			\$2,564,826,634	\$59,009,770
Other Companies				
Southern New England Tel. Co.	\$ 13,337,400	33.34	\$ 13,649,213	\$ 3,900,000
Cincinnati & Suburban Bell Tel. Co.	8,986,100	29.73	9,549,540	
Bell Telephone Company of Canada	18,749,800	22.03	18,854,783	
Cuban American Tel. & Tel. Co.—Common	432,500	50.00	162,500	
Cuban American Tel. & Tel. Co.—Preferred	140,000	50.00	140,000	
Miscellaneous				556,528
TOTAL			\$ 42,356,036	\$ 4,456,528

- (a) Common stocks unless otherwise indicated. (b) Remaining 50% owned by Western Electric Company.
- (c) Number of shares. (d) Excludes \$70,000,000 demand notes carried as temporary cash investments.

CERTIFICATE OF AUDIT

New York, N. Y., February 15, 1944.

TO THE STOCKHOLDERS OF AMERICAN TELEPHONE
AND TELEGRAPH COMPANY:

We have examined the balance sheet of American Telephone and Telegraph Company as at December 31, 1943, the consolidated balance sheet of the company and its principal majority-owned telephone subsidiaries as at December 31, 1943, and the related income statements for the year then ended, have reviewed the systems of internal control and the accounting procedures of the company and its subsidiaries consolidated and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Examinations of similar scope have been made by us of the balance sheets as at December 31, 1943 and of the statements of income and surplus for the year 1943 of the principal majority-owned nonconsolidated subsidiaries of American Telephone and Telegraph Company, except Western Electric Company, Incorporated, and its subsidiaries, and we have reviewed accounting reports for the year 1943 rendered to American Telephone and Telegraph Company by all other majority-owned nonconsolidated subsidiaries. The consolidated balance sheet of Western Electric Company, Incorporated, and its 100% directly-owned subsidiaries as at December 31, 1943 and the consolidated statements of income and surplus of these companies for the year 1943, with certificate of examination thereof by other independent accountants, have been furnished to us.

Reference is made to Note (c) to the accompanying income statement of American Telephone and Telegraph Company and to Note (g) to the accompanying consolidated income statement regarding the inclusion as a miscellaneous deduction from income of a portion of the provision made during the year for employees' service pensions. We concur in the opinion of the companies, expressed in such notes, that properly such items constitute operating expense.

With the explanation appearing in the immediately preceding paragraph, in our opinion, the financial statements (pages 30 to 33) and the consolidated financial statements (pages 22 to 28) present fairly the position at December 31, 1943 and the results of operations for the year 1943 of American Telephone and Telegraph Company and the consolidated position at December 31, 1943 and the consolidated results of operations for the year 1943 of the company and its principal majority-owned telephone subsidiaries, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LYBRAND, ROSS BROS. & MONTGOMERY

TRUSTEE'S REPORT OF PENSION TRUST FUND ESTABLISHED BY AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance in Fund—December 31, 1942	\$ 28,281,629.59
ADDITIONS TO FUND DURING 1943—	
Payments into Fund by Company	\$ 2,640,640.00
Interest Revenue, including gain or loss on investments dis- posed of	884,159.59
TOTAL ADDITIONS	\$ 3,524,799.59
DISBURSEMENTS FOR PENSIONS DURING 1943	708,018.51
NET INCREASE IN FUND	2,816,781.08
Balance in Fund—December 31, 1943	\$ 31,098,410.67
COMPRISED OF—	
Bonds of Bell Telephone Companies	\$ 8,839,070.35
U. S. Government Obligations	15,690,721.58
Public Utility, Railroad and Industrial Bonds	6,078,533.80
Cash and accrued interest not due	490,084.94
TOTAL	\$ 31,098,410.67

NOTE: Securities are shown on amortized basis.

BANKERS TRUST COMPANY, Trustee

By W. B. DUNCKEL
Vice President.

New York, N. Y.—January 26, 1944.

CONSOLIDATED STATEMENT OF PENSION TRUST FUNDS ESTABLISHED BY AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS PRINCIPAL TELEPHONE SUBSIDIARIES

Balance in Funds—December 31, 1942	\$288,633,914.37
ADDITIONS TO FUNDS DURING 1943—	
Payments into Funds by Companies	\$38,708,725.00
Interest Revenue, including gain or loss on investments dis- posed of	9,772,518.48
TOTAL ADDITIONS	\$48,481,243.48
DISBURSEMENTS FOR PENSIONS DURING 1943	9,228,756.46
NET INCREASE IN FUNDS	39,252,487.02
Balance in Funds—December 31, 1943	\$327,886,401.39
COMPRISED OF—	
4% Demand Notes of Bell Telephone Companies	\$ 66,056,993.70
Bonds of Bell Telephone Co panies	52,111,251.98
U. S. Government Obligations	142,777,250.55
Public Utility, Railroad and Industrial Bonds	57,138,876.70
Cash and accrued interest not due	9,802,028.46
TOTAL	\$327,886,401.39

NOTE: Securities are shown on amortized basis.

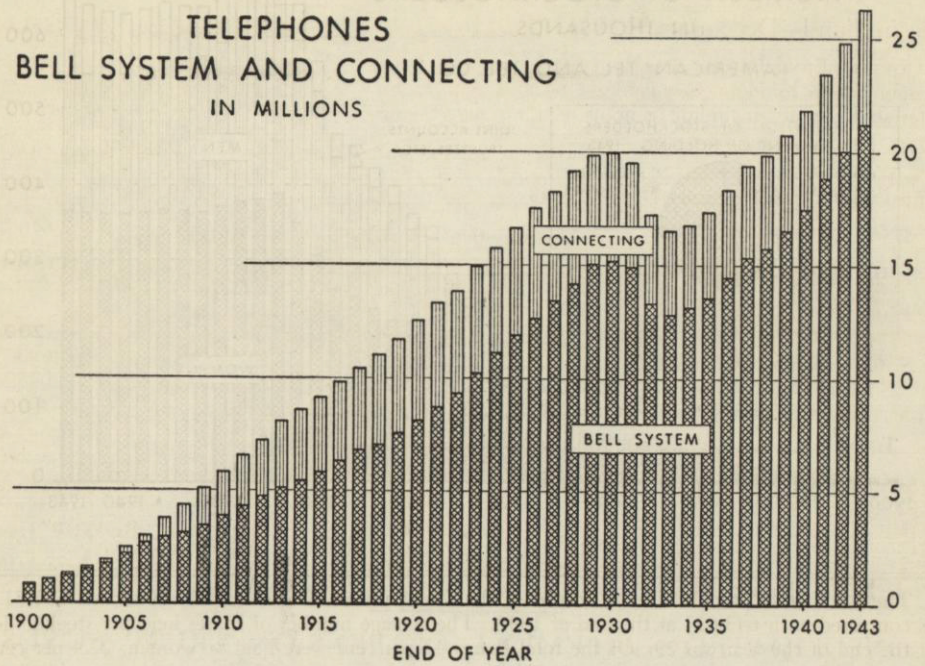
We certify that the above consolidated statement of the Pension Trust Funds established by the American Telephone and Telegraph Company and its Principal Telephone Subsidiaries, for which Funds this company is Trustee, is correct.

BANKERS TRUST COMPANY, Trustee

By W. B. DUNCKEL
Vice President.

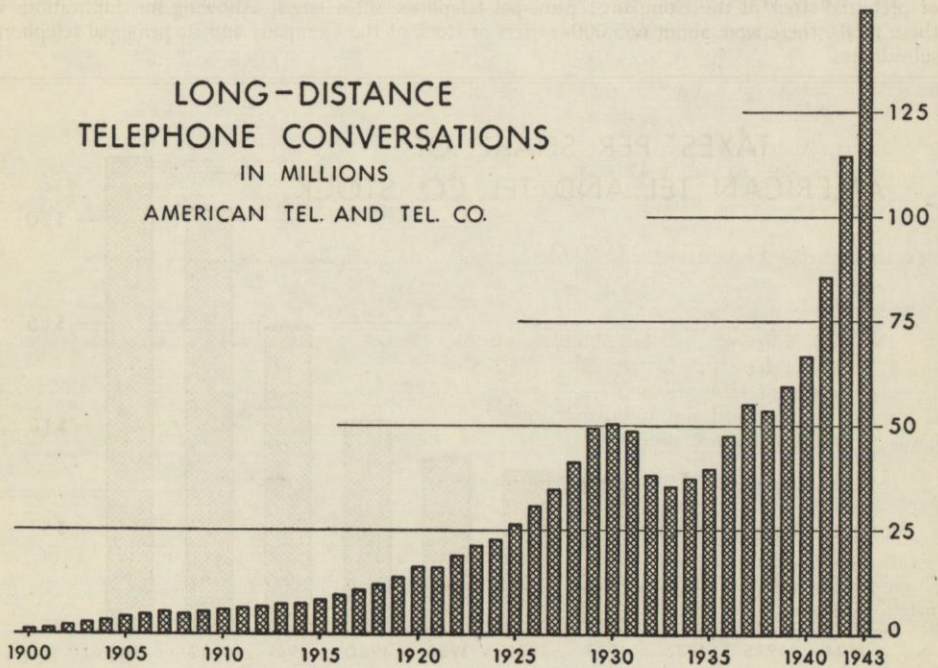
New York, N. Y.—January 28, 1944.

TELEPHONES BELL SYSTEM AND CONNECTING IN MILLIONS



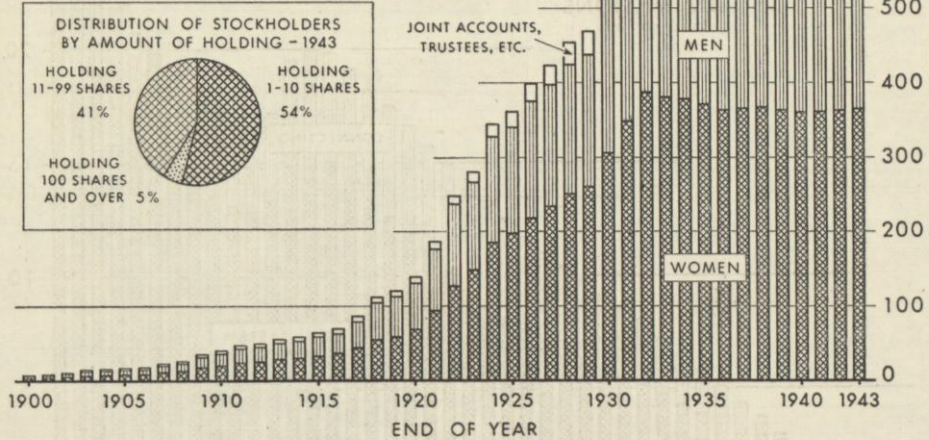
LONG-DISTANCE TELEPHONE CONVERSATIONS IN MILLIONS

AMERICAN TEL. AND TEL. CO.



NUMBER OF STOCKHOLDERS IN THOUSANDS

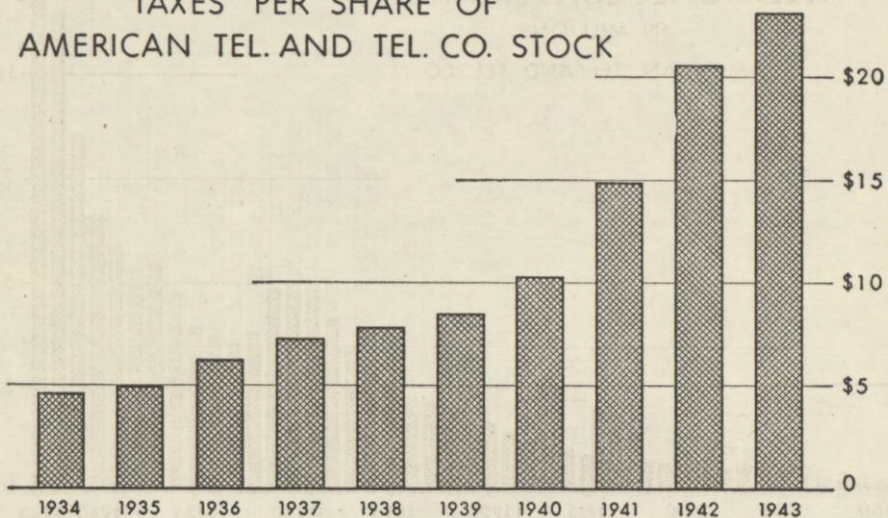
AMERICAN TEL. AND TEL. CO.



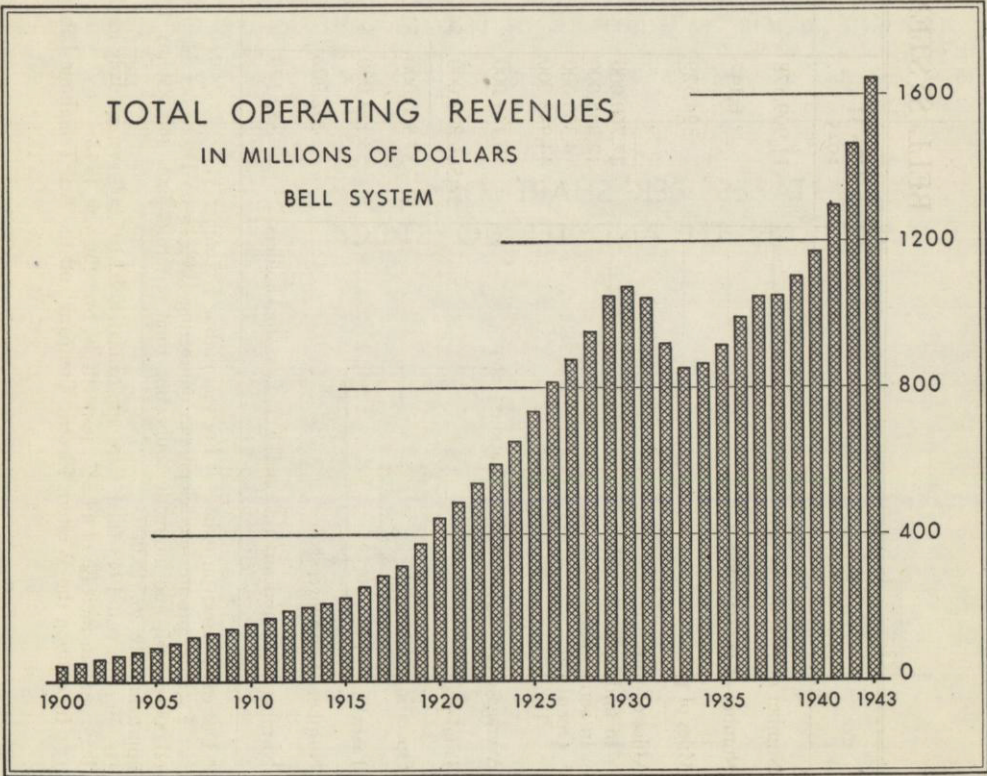
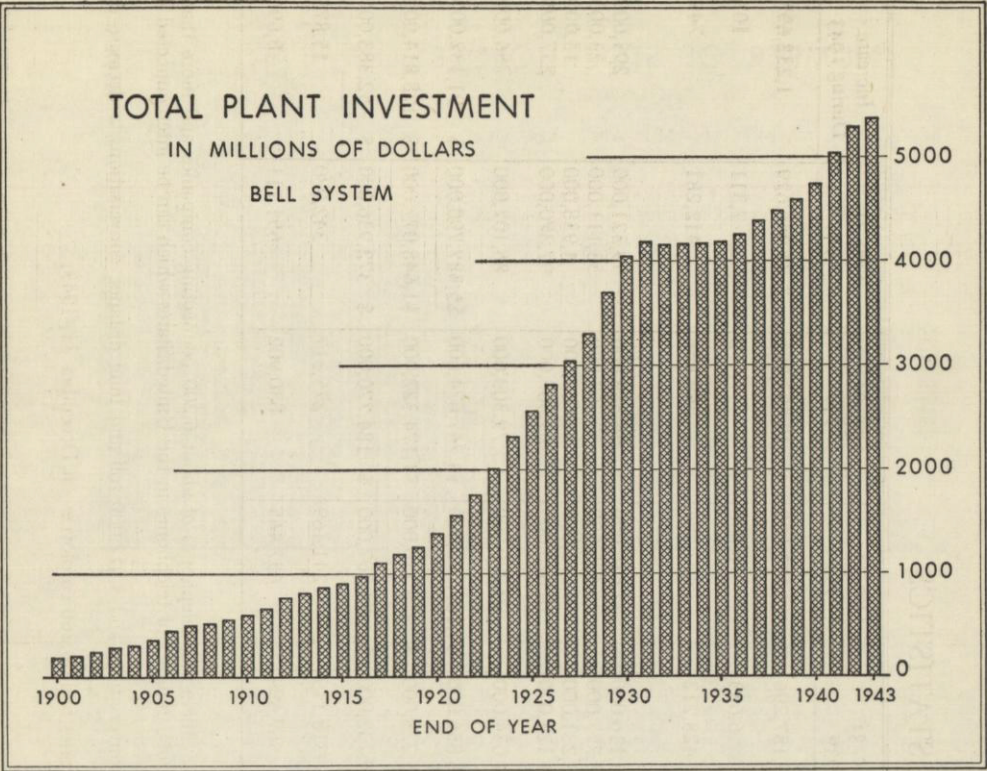
The number of stockholders of record of the Company on December 31, 1943 was 651,711, as compared with 643,021 at the end of 1942. The average number of shares held per stockholder at the end of the year was 29. Of the total shares 43 per cent were held by women; 27.4 per cent by men; 6.9 per cent in joint accounts; 21.3 per cent by trustees, insurance companies, corporations, private firms, etc.; and 1.4 per cent were in the names of brokers. No stockholder of record held as much as one-half of one per cent of the total stock outstanding.

There were also at the end of 1943 about 25,700 holders of common stock and 2,700 holders of preferred stock of the Company's principal telephone subsidiaries. Allowing for duplications in these totals, there were about 665,000 owners of stock of the Company and its principal telephone subsidiaries.

TAXES* PER SHARE OF AMERICAN TEL. AND TEL. CO. STOCK



* BELL SYSTEM INCLUDING WESTERN ELECTRIC COMPANY.



BELL SYSTEM STATISTICS

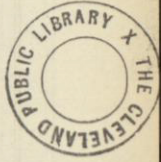
	Dec. 31 1925	Dec. 31 1930	Dec. 31 1935	Dec. 31 1940	Dec. 31 1943	* Increase During 1943
Number of telephones (a).....	11,909,578	15,187,296	13,573,025	17,483,981	21,246,629	1,233,697
Number of central offices.....	6,147	6,639	6,896	7,052	7,311	107
Miles of pole lines.....	394,529	428,212	407,454	399,838	412,281	749
Miles of wire:						
In underground cable.....	27,769,000	45,116,000	47,639,000	54,339,000	59,321,000	293,000
In aerial cable.....	12,835,000	23,777,000	26,425,000	30,307,000	33,111,000	23,000
Open wire.....	4,339,000	5,231,000	4,562,000	4,660,000	4,938,000	13,000
Total.....	44,943,000	74,124,000	78,626,000	89,306,000	97,370,000	257,000
Average daily telephone conversations† (b).....	50,141,000	64,034,000	60,290,000	79,303,000	86,107,000	786,000
Total plant.....	\$2,566,809,000	\$4,028,836,000	\$4,187,790,000	\$4,747,674,000	\$5,387,790,000	\$ 91,132,000
Operating revenues†.....	\$ 737,560,000	\$1,075,228,000	\$ 919,116,000	\$1,174,322,000	\$1,648,077,000	\$ 178,814,000
Taxes†.....	\$ 58,113,000	\$ 84,732,000	\$ 94,507,000	\$ 184,770,000	\$ 372,936,000	\$ 52,383,000
Number of employees(c).....	292,902	318,119	241,169	275,317	342,980	15,873
Number of American Tel. and Tel. Co. stockholders.....	362,179	567,694	657,465	630,902	651,711	8,690

* Decreases shown in italics. † For year ending December 31.

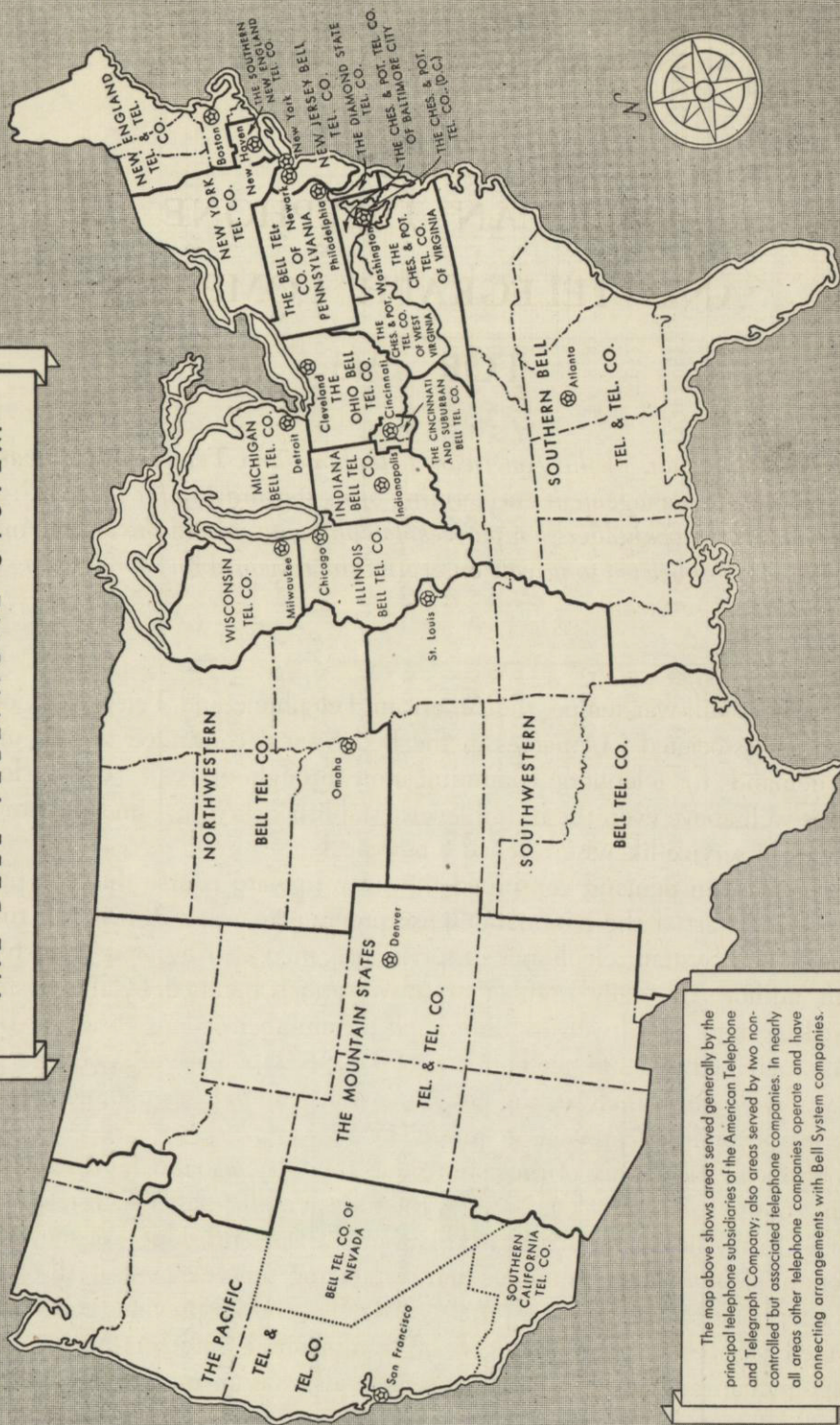
(a) Excludes private line telephones numbering 100,313 on December 31, 1943. Including telephones of about 6,200 connecting companies and more than 60,000 directly and indirectly connecting rural or farmer lines and systems, the total number of telephones in the United States which can be interconnected is approximately 26,315,000.

(b) For the year 1943 there were approximately 82,195,000 average daily local conversations and 3,912,000 toll and long distance conversations, a decrease of 1.5% and an increase of 14.2%, respectively, over the year 1942.

(c) In addition the Western Electric Company and the Bell Telephone Laboratories had 96,266 employees on December 31, 1943.



THE BELL TELEPHONE SYSTEM



The map above shows areas served generally by the principal telephone subsidiaries of the American Telephone and Telegraph Company; also areas served by two non-controlled but associated telephone companies. In nearly all areas other telephone companies operate and have connecting arrangements with Bell System companies.